

Quarterly Economic Review

*A Comparison of Selected National, Regional,
and Local Economic Indicators*
Loudoun County Department of Economic Development



Volume 4, Issue 2

Second Quarter 2006

Economy Surges Amid Worries

In the first quarter of 2006, U.S. GDP surged by a two-and-a-half-year high 5.3 percent. Consumption, much of which was in expensive durable goods, was a major contributor to that growth. Growth in exports, investments, and federal spending also contributed to the economy's strong performance. Even more encouraging, recent economic growth continues to fuel the labor market. Through April 2006, almost 700,000 net new jobs have been created in the U.S., a figure that is on a par with recent observations and well ahead of the comparable 50-year average. In addition, the unemployment rate recently reached a six-year low 4.5 percent, the average length of time that a person spends unemployed continues to fall, and unemployment claims are historically low.

Despite these signs of strength, worries about the economy continue to steal headlines. Most notable is the housing market, where 'days-on-market' and inventories have skyrocketed and price growth has returned to single digit rates. As interest rates continue to increase and appreciation slows, households are no longer going to be able to borrow against their equity, leading to concerns of a consumption slowdown. Another frequently reported worry is energy costs. Gas prices, which routinely flirt with all time highs (unadjusted for inflation), continue to weigh on consumers. In May 2006, the average price for a gallon of gas was \$2.88, a 75 percent increase from a year ago. In 2004, when pump prices were substantially cheaper, U.S. households spent 3 percent of their income on gasoline. With prices threatening to double from that level, the increases in spending at the pump will no doubt displace spending elsewhere. These worries, along with continued geopolitical instability, have significantly soured consumer's moods. In the first five months of 2006, the consumer sentiment index dropped by 13 percent. Although that generally poor outlook has not yet translated into reductions in consumption, any faltering on the part of consumers could significantly reduce economic growth.

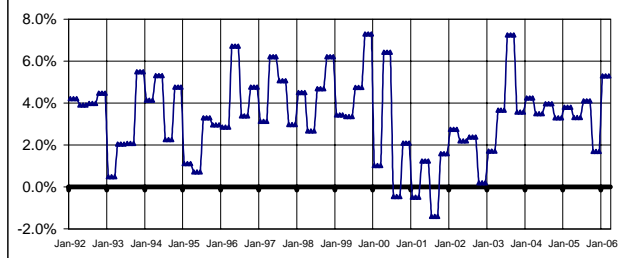
Locally, economic conditions continue to be strong. In March 2006, the region's unemployment rate of 2.9 percent was 20th lowest among more than 360 MSAs in the U.S. Washington added 76,000 jobs in the year ending in March 2006, the fourth best performance in the nation behind only Phoenix, Dallas, and New York. Economic conditions remain robust in Loudoun County as well. In the third quarter of 2005, employment increased by 5.5 percent, the 18th fastest rate among the nation's 300 largest counties. The March unemployment rate in Loudoun County was 1.9 percent, the lowest in Virginia and one of only four counties in the U.S. with a rate below 2 percent. By nearly any measure, local labor markets are among the healthiest in the nation.

Unfortunately, local economies also have sources of worry. For example, federal government spending, which contributes strongly to regional employment growth, may be slowing. In the fourth quarter of 2005, federal government spending experienced its largest drop in more than five years. Although those figures rebounded strongly in the first quarter of 2006, much of that spending was allocated to gulf coast reconstruction. Another source of worry may be the area's housing market. Although prices are still increasing at the regional level, rates of growth have slowed significantly and are now nearing the nation's average after being among the nation's leaders for four years. In Loudoun County, prices of homes that have sold have now declined in three of the past six months. While some of that may be attributed to seasonality, it is worth noting that prices have not behaved like that since the 2001 recession. While there are still many reasons to remain optimistic about local economic conditions, these worries deserve monitoring.

National Economic Indicators

Gross Domestic Product

This variable measures the annualized percent change in Gross Domestic Product (GDP). GDP is the broadest measure of economic activity and reflects the growth rate of total economic output in the U.S., including goods and services. Source: BEA.

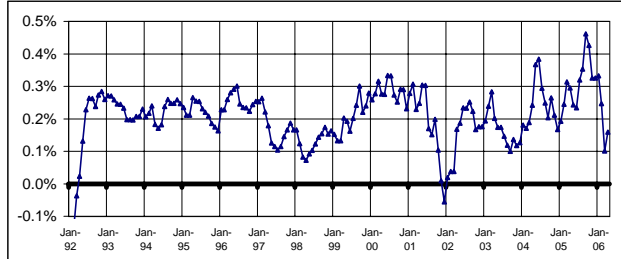


Recent Trend: **INCREASING**

Real GDP growth accelerated in the first quarter after a significant slowdown in the fourth quarter of 2005. The recent growth in GDP, which was 5.3% through March of 2006, was led by consumption. In particular, growth was strong in big ticket durables which may indicate that consumers are optimistic about the future. Government spending also rebounded.

Consumer Price Index

This variable measures the six month moving average percent change in the Consumer Price Index (CPI) for the U.S. The CPI measures the price level of a fixed market basket of goods and services and is the most widely cited inflation indicator. Source: BLS.

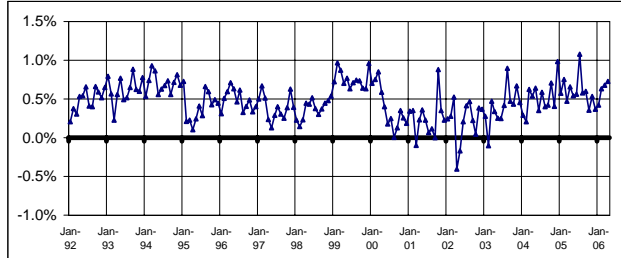


Recent Trend: **UNCLEAR**

Inflationary pressure subsided in February but has since increased. In the first quarter of 2006, price increases were led by rising energy, medical, and transportation costs. Through April, prices have increased by 5.1% versus 3.4% for all of 2005. Increases in inflation will likely lead to higher interest rates which may have implications on the housing market and consumption.

Retail Sales

This variable measures the six month moving average percent change in U.S. retail sales, a timely indicator of broad consumer spending patterns. Data are adjusted for seasonal, holiday, and trading day differences, but not for price changes. Source: Census Bureau.



Recent Trend: **INCREASING**

Retail sales, which have steadily increased for five consecutive quarters, rose by 0.5% in April 2006. That figure was above the ten-year average rate of growth and was largely driven by higher gas prices. In the latest year, other retail businesses experiencing healthy growth include building supplies, food and beverage sales, and general merchandise.

Unemployment Duration

This variable measures the average length of time, in weeks, that unemployed persons have sought work in the U.S. This variable is sometimes argued to be a better indicator of the labor market than the unemployment rate. Source: BLS.

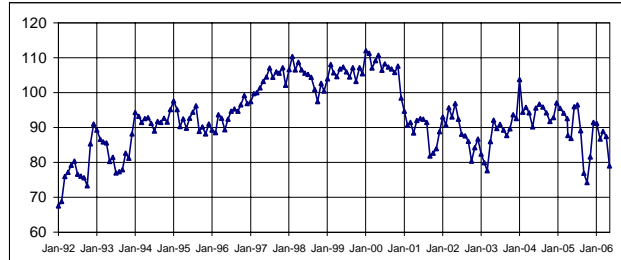


Recent Trend: **DECREASING**

The average unemployment duration fell to 16.8 weeks in April 2006. That measure, which has trended downward for two years and is now nearing a 4-year low, was still slightly higher than the 50-year average of 13.4 weeks. Declines in unemployment durations are a good indicator of the health of the U.S. labor market and may help to shore up wobbling consumer sentiment.

Consumer Sentiment

This variable measures both consumers' appraisal of current economic conditions and their expectations. The index is helpful in predicting sudden shifts in consumer patterns. Consumption is 66% of the U.S. economy. Source: University of Michigan. (1985=100).

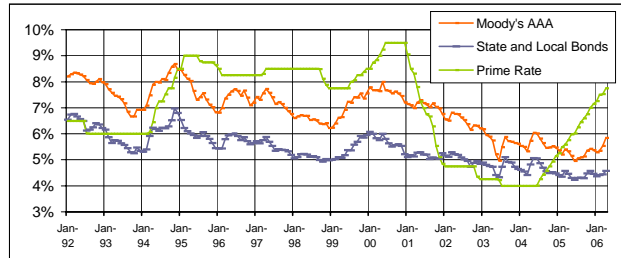


Recent Trend: **DECREASING**

Consumer sentiment slid sharply in May 2006, driven lower by consumer's worries about gasoline prices and the housing market. Consumer sentiment fell to 79.1 in that month and has now fallen for four of the last five months. Fortunately, recent consumer activity does not indicate that consumers' poor outlook is translating into declines in consumption.

Interest Rates

These variables measure rates of interest in money and capital markets. They are defined as follows: Moody's AAA - Private, all industries AAA Rating; State and Local Bonds - 20 bond index; Prime Rate - bank prime loan rate. Source: Federal Reserve.



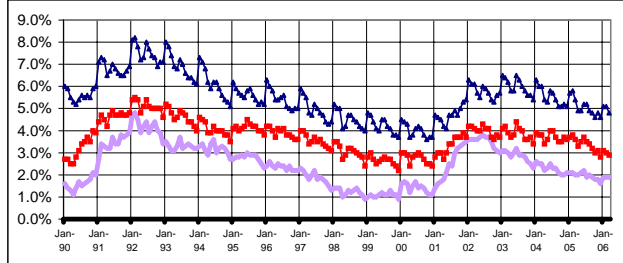
Recent Trend: **INCREASING**

The prime rate continued to rise in response to the Federal Reserve's steady Federal Funds rate increases. State and local bond rates and the prime rate also increased in the first four months of 2006, each reaching 18-month highs in April. Continued increases in interest rates are likely given inflationary pressures and relatively strong overall economic growth.

Regional and Local Indicators

Unemployment Rate

This variable is defined as the number of unemployed divided by the labor force by place of residence. Data are not seasonally adjusted and are subject to criticism at local levels, particularly in rapidly growing localities. Source: BLS Employment Report.

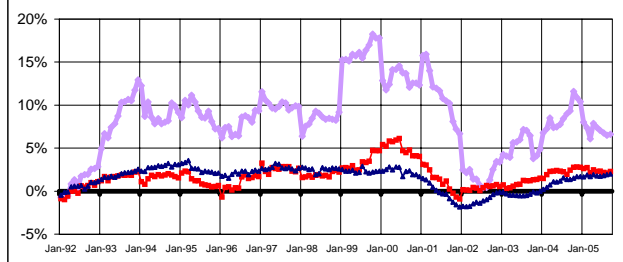


Recent Trend: **DECREASING**

The U.S. unemployment rate fell to 4.5% in April 2006, the lowest level since the height of the technology boom. That rate is well below the 50-year average of 5.6%. Loudoun's unemployment rate was 1.9% in March, one of the four lowest among all 3,100 U.S. counties. Washington's unemployment rate of 2.9% was 3rd lowest among the nation's largest metro areas.

Total Employment

This variable measures the annual percent change in total covered employment on a place of work basis. This indicator is considered the most timely and broad monthly indicator of economic activity. Source: BLS Employment Report.

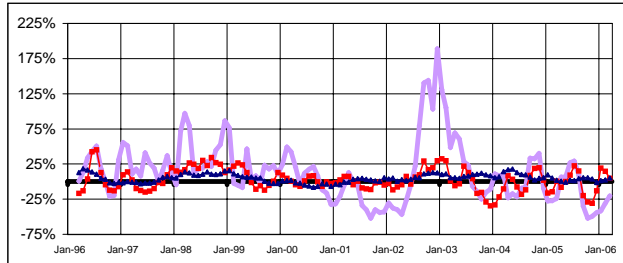


Recent Trend: **INCREASING**

Loudoun added 7,600 jobs in the year ending in September 2005, increasing by 5.5%. That rate was the 18th fastest among the 300 largest counties. Regional and national employment growth was also relatively strong, posting 2.3% and 2.0% gains, respectively. These and other indicators suggests that local and national labor markets are on solid footing.

Residential Bldg. Permits

This variable measures the year over year percent change in the three month moving average of residential building permits. These data can be volatile at the county level. Source: Census Bureau and Loudoun County Department of Economic Development.

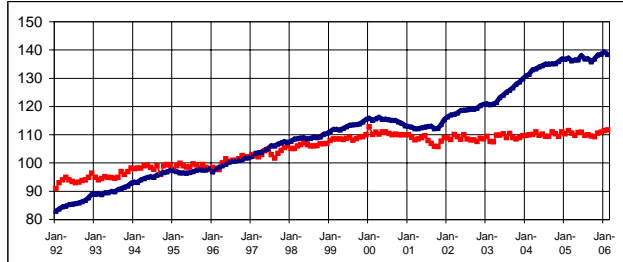


Recent Trend: **DECREASING**

Approximately 1,000 residential building permits were issued in Loudoun County in the first quarter of 2006. That pace qualified as Loudoun's slowest first quarter since 2002. Slowdowns were also observed in neighboring Fairfax and Prince William counties in the period. Declines in the number of permits issued have been observed in Loudoun for all unit types.

Leading Indicators

Although these indices differ in composition, both forecast economic performance in the short term (about 6 to 12 months). The Conference Board produces the U.S. Leading Indicator and GMU's Center for Regional Analysis produces the Washington Leading Index.

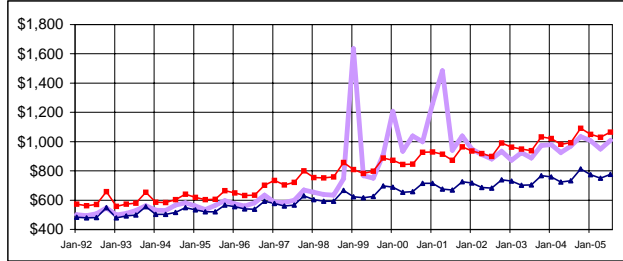


Recent Trend: **UNCLEAR**

The Washington Index increased for the 4th consecutive month in February, driven higher by strong durable goods sales, and a healthy labor market. The U.S. Leading Indicators have been unchanged in 2006. Strong retail sales growth and stock market gains have been offset by declining consumer expectations and slowing building permit activity.

Average Weekly Wages

This variable measures the average weekly wages in all industries for all employees covered by unemployment insurance. These data are not adjusted for inflation. Peaks are likely associated with bonuses. Source: Virginia Employment Commission and BLS.

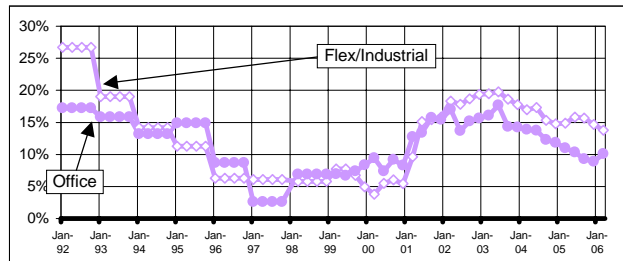


Recent Trend: **INCREASING**

In the 3rd quarter of 2005, average weekly wages increased locally, regionally and nationally. Loudoun's wages were lifted by strong increases in public administration and professional & business services employment each of which are high wage industries. Professional & business services is projected to lead all other sectors in employment growth in Loudoun through 2030.

Loudoun's Vacancy Rates

These variables measure the share of office and industrial space that is vacant in Loudoun County, excluding sublet space. It is a good indicator as to the health of the non-residential real estate market. Comparable figures are not available. Source: Costar.



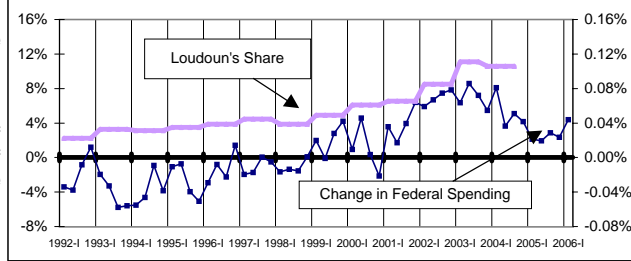
Recent Trend: **UNCLEAR**

Loudoun's office vacancy rates increased in the first quarter of 2006 quarter. Preliminary second quarter data suggest that office vacancy rates may continue to jog upward in the second quarter. Flex and industrial rates fell to 13.5%, a 5-year low. In the latest year, about 540,000 square feet of office space and 1.4 million square feet of flex/industrial space has been absorbed.

Government Finance

Federal Spending

These variables measure the percent change in total U.S. federal consumption and investment spending (left axis) and Loudoun County's share of that spending as a percent of the nation (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

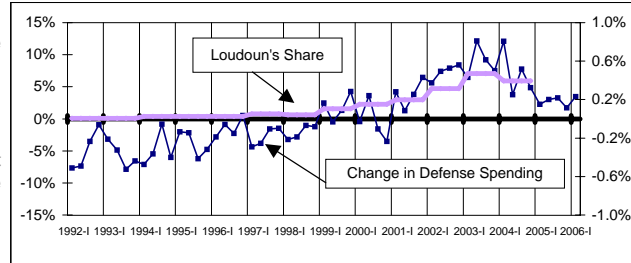


Recent Trend: **INCREASING**

Total federal spending increased by 10.8% in the first quarter of 2006, the biggest jump in three years. Increases in federal government spending are welcome as approximately 9% of Loudoun's total wages are earned in that sector. Recently, the share of national federal expenditures allocated to Loudoun has declined. Continued declines in those figures would be concerning.

Federal Defense Spending

These variables measure the percent change in total U.S. federal consumption and investment spending on National Defense (left axis) and Loudoun County's share of that spending (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

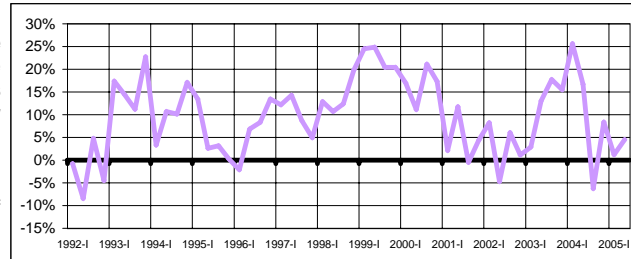


Recent Trend: **INCREASING**

Total federal defense spending increased by 10.6% in the first quarter of 2006, after a significant slowdown in the previous quarter. Loudoun received \$1.4 billion in total defense spending in 2004, about 0.4% of the nation's total. Continued growth in federal spending is beneficial to Loudoun as it fuels professional & business service and other high wage jobs.

Taxable Retail Sales

This variable measures the year over year percent change in total taxable retail sales collected in Loudoun County and allows insight into trends in local option sales tax revenue. Data are adjusted for inflation. Source: Virginia Department of Taxation.

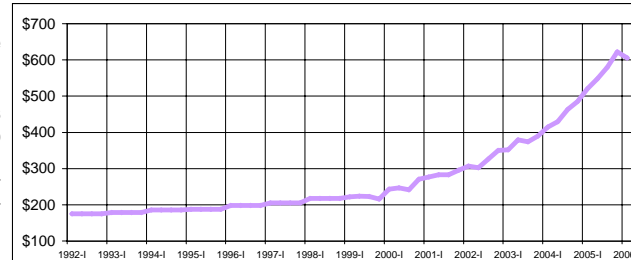


Recent Trend: **INCREASING**

After a relatively weak first quarter, retail sales expanded by an inflation adjusted 4.5% in Loudoun in the second quarter. Retail sales increased by 3.0% in Northern Virginia and 3.4% in Virginia in the same period. The publication of data for the third quarter has been delayed due to a conversion in the method in which these data are reported.

Average Housing Sales Price

This variable measures the average sales price for all housing units sold in Loudoun County in thousands of dollars and may offer insight into trends in property tax revenue. Data are not adjusted for inflation or product mix, age, or size. Source: Loudoun County Dept. of Financial Svcs.



Recent Trend: **UNCLEAR**

The average price of homes sold in Loudoun in the fourth quarter was \$622,000, an annualized increase of 32% over the third quarter. Regional and national prices increased by 24% and 13% in the period, respectively. Early first quarter data suggest that price growth may be slowing in Loudoun, particularly for condos. Like the nation, a slowdown in home price growth is expected.

Summary

	Trend		Number of Indicators
Gross Domestic Product	INCREASING		
Consumer Price Index	UNCLEAR		
Retail Sales	INCREASING		
Unemployment Duration	DECREASING		
Consumer Sentiment	DECREASING		
Interest Rates	INCREASING		
Unemployment Rate	DECREASING	Favorable	9
Total Employment	INCREASING	Unclear	4
Residential Bldg. Permits	DECREASING	Unfavorable	3
Leading Indicators	UNCLEAR		
Average Weekly Wages	INCREASING		
Loudoun's Vacancy Rates	UNCLEAR		
Federal Spending	INCREASING		
Federal Defense Spending	INCREASING		
Taxable Retail Sales	INCREASING		
Average Housing Sales Price	UNCLEAR		

Current Distribution of Indicators

